ASIA'S GROWING INTEREST IN HYDROCARBONS FROM THE AMERICAS:
A Snapshot

As Asian nations grow both economically and demographically their energy requirements continue to expand. A technology-driven revolution in energy development across the Western Hemisphere has amplified Asian interest in procuring energy resources from the Americas. From the Canadian oil sands to the Orinoco Belt, the Brazilian pre-salt, Vaca Muerta in Argentina, and numerous opportunities in between, Asian investment has exploded, led by but not limited to China. The entire sector is in play: oil and gas, coal, alternatives including wind, geothermal, and solar, and infrastructure, equipment, services, and transportation. While numerous Asian nations are staking positions across the region, recent developments from China, Japan, and India in the hydrocarbons sector offer useful insights for analyzing the burgeoning energy relationship between Asia and the Western Hemisphere.

CHINA'S GROWING INTERESTS

The body of research concerning China in the Americas is growing alongside Chinese engagement but the phenomenon is barely a decade old and continues to evolve. In that time, Chinese national oil companies ("NOCs") have emerged as significant players in the Western Hemisphere hydrocarbons sector. China's primary interest in the Americas stems from a need to develop its own economy and Beijing's recent engagement has primarily been economic. Interest in individual nations with the exception of Cuba appears to be driven more by the presence of natural resources than by any particular ideological basis or desire to engage in regional political or security matters. For example, China has been very active in both Canada and Venezuela, which are the top two hydrocarbon-rich nations in the hemisphere, and also Argentina, Brazil, Colombia, Ecuador, Trinidad and Tobago, and elsewhere. Purposeful outreach to the Government of Mexico since Xi Jinping became president in early 2013 indicates China is also interested in Mexican energy as reforms to remake the sector are implemented.

A technology-driven revolution in energy development across the Western Hemisphere has amplified Asian interest in procuring energy resources from the Americas.

Missteps have been made, as would be expected for any new market entrant, but the relationship is evolving as China learns how to do business in Latin America and the Caribbean and the region begins to understand better the broader implications of Chinese engagement. Latin America, too, is learning to adapt. In 2005, Chinese NOC's accounted for only three percent of deal flow; by 2012 that had increased by a factor of five, to 15 percent. Chinese investment in the sector was significantly facilitated by the global financial crisis from 2008 onward, allowing the purchase of higher quality assets at greatly reduced prices. At the same time, the strong support of the China Development Bank for asset purchases, energy-related infrastructure development, and the procurement of Chinese products has

Written by Christian Gómez, Jr.
Director of Energy, Council of the Americas
Published by the Americas Society and Council of the Americas
October 2014

AS/COA

ensured that financial considerations alone would not generally hinder strategic asset procurement. In 2010, the biggest year to date, Chinese NOC's spent some $30 billion to acquire assets in the Western Hemisphere.

Significant new developments driving Chinese investment include the discovery of Brazil's pre-salt layer and the shale revolution driven by new technology and low-cost capital.

Significant new developments driving Chinese investment include the discovery of Brazil's pre-salt layer and the shale revolution driven by new technology and low-cost capital. Indeed, China itself is now estimated to have the world's largest shale gas reserves, followed by Argentina, Algeria, the United States, Canada, and Mexico. The presence of massive hydrocarbon resources coupled with the political stability and national security that the region enjoys vis-à-vis areas such as North Africa and parts of the Middle East make the Western Hemisphere an attractive location for Chinese and other investors.

Looking forward, investments may now begin to be made a bit more deliberately as the Chinese economy slows—moderating growth in Chinese energy demand—and China more fully develops its own gas fields. At the same time, as China continues along the learning curve of investing in the Western Hemisphere, there is now a greater emphasis on due diligence to ensure that investments are wisely made. Openness to working as a minority stakeholder with foreign partners, who may have greater expertise working within a sector or country, now appears to be an important addition to the Chinese hydrocarbons investment toolbox. For example, CNOOC and the China National Petroleum Corporation were both comfortable in acquiring minority positions in the pre-salt Libra field off the coast of Brazil, which diversifies their risk, provides access to deep water technology, and reduces the financial burden while still providing the desired entry into Brazil's deep water hydrocarbon resources.

Furthermore, since the death of Hugo Chavez, China has seemingly taken a more cautious approach with Venezuela, recognizing growing political and economic risk while also working diligently to develop alternative sources of hydrocarbons in the Western Hemisphere that makes the need for a relationship with Venezuela less compelling. Ecuador has been a beneficiary of Chinese investment, and CNOOC's February 2013 acquisition of major Canadian energy company Nexen was China's largest-ever foreign takeover. Chinese aims in procuring energy exports from Alberta as well as the United States is driving investment focus as well as infrastructure development, including pipelines, rail projects, ports, and perhaps even expansion of the Central American canal system. Chinese interest in developing West Coast export-related infrastructure across the Americas could well be the next phase of investment in the hemispheric energy sector.

JAPAN'S RENEWING PRESENCE IN THE AMERICAS

Prime Minister Shinzo Abe's travel to Latin America in mid-2014—the first trip of a Japanese prime minister to the region in a decade—was an indication that Japan may be re-awakening to the region. Japan's interests in the Americas pre-date China's, stemming from historical migration patterns in the 1800's and a boomlet in direct foreign investment after World War II when traditional avenues of

Japanese investment in Asia were foreclosed. Japan must import virtually all of its hydrocarbons needs, which primarily come from the Middle East. Imports from the Americas only account for a small percentage of total Japanese consumption, but continued instability in the Middle East, growing reserves in the Western Hemisphere, and a sense that Japan is falling behind China in the Americas means that Japanese companies are looking for new opportunities in energy exploration and production, services, infrastructure, and transport.

Japanese companies continue to be active in the Orinoco Belt in Venezuela, both in exploration and production. Of particular interest for new development are deep water fields off the coast of South America. Japanese companies have been unsuccessful in bidding rounds for Brazilian offshore properties to date, but have succeeded in Uruguay. Mexico's newly opening sector offers potential opportunities both offshore in the Gulf and onshore in shale gas. Colombia is also a prospective investment target, given an improving security environment and attractive conditions in the energy sector, although Colombia's proven hydrocarbon reserves are much less than others.

Nonetheless, the primary play appears to be North American shale gas, given supplies and the growing ability to export LNG, particularly from the United States where hydrocarbon exports have heretofore been circumscribed. At least since 2005, major Japanese trading houses have engaged in joint ventures of shale gas exploration and production. The growth of shale gas and LNG expansion in North America and across the region is of highest interest; by 2017, LNG carriers will be able to pass through an enlarged Panama Canal, offering the prospect for lower cost, cleaner energy imports that the nation craves particularly after the Fukushima nuclear disaster has changed nuclear energy dynamics in Japan.

INDIA: A NEW ENTRANT

Compared to China, India's engagement in the Western Hemisphere has maintained a different focus. China has built regional relationships based on commodities while India has focused more on private sector IT development and services. Nonetheless, new Prime Minister Mohendra Modi was elected on a platform to strengthen economic growth; doing so will increase demand for energy at home while likely increasing exposure to Latin America and Caribbean energy markets. While India's engagement in Latin American energy remains in its preliminary phase, prospects for increasing activity are quite good.

While India's engagement in Latin American energy remains in its preliminary phase, prospects for increasing activity are quite good.

Energy demand is growing in India and is expected to double by 2035. Eighty percent of India's crude comes from imports and 25% of its natural gas comes from imports. India's total oil imports from Latin America increased from 4.5% in 2003 to 11% in 2013.[1] Furthermore, eight Indian companies[2] are part of 12 joint ventures in Venezuela, Brazil, Colombia, Ecuador, Cuba, and Peru. India's petroleum minister recently announced an action plan to make India energy independent by 2030 through increased hydrocarbon production and shale gas.

1 Seshasayee, Hari. "Tapping into Latin America's oil." Gateway House: Indian Council on Global Relations. November 1, 2013.
2 OVL, Reliance Industries, Essar Oil, BPCL, Oil India, Videocon Industries, Assam Company, and Indian Oil Corporation.

The two fastest growing destinations of Venezuelan crude oil are China and India, and India has expanded its footprint in Venezuela in order to meet its demands for energy. In 2013, Venezuela became India's fourth largest source of oil imports, following Saudi Arabia, Iraq, and Kuwait.[3]

India is not just a recipient of oil exports from Venezuela; it is also an investor. ONGC Videsh (OVL) currently owns equity stakes in two oil fields in Venezuela. PetroCarabobo has $2.18 billion invested in a 40% stake jointly owned by a consortium (ONGC Videsh, Indian Oil Corp, and Oil India); a 60% stake is owned by PDVSA. In addition, in the San Cristobal field, there is $13.63 billion invested; a 40% stake jointly owned by consortium [OVL (11%), Indian Oil Corp (3.5%), Oil India (3.5%), Repsol (11%), Petronas (11%)]; and a 60% stake is owned by PDVSA. OVL has indicated it would invest more in Venezuelan oilfields if bilateral agreements were implemented to minimize risk. Finally, Essar's Vadinar refinery and RIL's Jamnager refinery are among the few facilities capable of refining heavy oil from Venezuela's Orinoco region.

There has been Indian interest in other Latin American countries such as Bolivia, Brazil, Peru, Colombia, and Mexico. In October 2013, OVL was among 11 foreign companies to bid for Brazil's Libra oil field. OVL was not a winning bidder but the effort demonstrates a willingness to engage with the biggest economy in Latin America. In Colombia, OVL and Sinopec set up a $1 billion joint venture to form Mansarovar Energy Colombia, which represents a nearly 25% market share in the country's heavy crude sector.[4] In Mexico, OVL seeks partnership with Petroleos Mexicanos, while Reliance has stated its interest in exploration blocks in Mexico.

The Indian government has also seen opportunities in resource-rich Trinidad and Tobago. In recent years, Indian companies such as OMEL have invested in the gas sector, in particular in joint ventures with Petrotrin, Trinidad's state owned oil company. The partnership is driven by India's robust economic growth which contributes to an increased demand for energy.

CONCLUSION

With increasing demand at home and massive hydrocarbon resources newly available in the Americas, Asian nations and their companies will continue to seek strategic investment across the Pacific. This is likely now a long-term phenomenon. Asian interest and investment in the hemispheric energy sector will only continue to expand.

To maximize this trend, Latin American countries should strengthen their regulatory and taxation frameworks to allow for a level playing field for the state and private actors that seek to invest in energy projects. They should also focus on ensuring rule of law to maximize certainty for projects. Like all natural resource investments in the Americas, consultations with local communities are vital and should be employed appropriately.

With increasing demand at home and massive hydrocarbon resources newly available in the Americas, Asian nations and their companies will continue to seek strategic investment across the Pacific.

[3] "India-Venezuela Relations." Government of India: Ministry of External Affairs. June 2013.
[4] Seshasayee.